

**Compliance With Certain Taxpayer Rights  
Provisions Contained in the  
Internal Revenue Service Restructuring  
and Reform Act of 1998 Could Be Improved**

**September 2001**

**Reference Number: 2001-10-147**

**This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.**



DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

INSPECTOR GENERAL  
for TAX  
ADMINISTRATION

September 13, 2001

MEMORANDUM FOR DIRECTOR, TAX ADMINISTRATION COORDINATION

*Gordon C. Milboin*

FROM: (for) Pamela J. Gardiner  
Deputy Inspector General for Audit

SUBJECT: Final Audit Report - Compliance With Certain Taxpayer Rights  
Provisions Contained in the Internal Revenue Service  
Restructuring and Reform Act of 1998 Could Be Improved

This report presents the results of our review of the Internal Revenue Service's (IRS) level of compliance with certain IRS Restructuring and Reform Act of 1998 (RRA 98)<sup>1</sup> taxpayer rights provisions.

In summary, we found that the IRS has made progress in the implementation of the 18 RRA 98 taxpayer rights provisions reviewed. For some of the provisions, the IRS is in full compliance. For other provisions, the IRS needs to improve compliance by completing actions recommended in prior Treasury Inspector General for Tax Administration audit reports and taking steps to ensure that it can begin providing certain statements and notices to taxpayers by the dates required by the law.

To assist in its implementation efforts, the IRS designated executives to be responsible for implementing specific RRA 98 provisions and a network of managers and employees to track the progress of the RRA 98 implementation. While this has helped the IRS to monitor compliance with implementation, there were factors that hindered the implementation efforts. For example, the system used to track programming changes was not designed to track the changes through to completion. Also, new procedures for complying with the RRA 98 were not always issued timely.

We recommended that the IRS complete programming changes for all applicable systems so that the proper notices and statements can be sent as required. In addition, the Office of Tax Administration Coordination should ensure the tracking system does

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<sup>1</sup> Pub. L. No. 105-206, 112 Stat. 685 (codified as amended in scattered sections of 2 U.S.C., 5 U.S.C., 5 U.S.C. app., 16 U.S.C., 19 U.S.C., 22 U.S.C., 23 U.S.C., 26 U.S.C., 31 U.S.C., 38 U.S.C., and 49 U.S.C.).

not show provisions as complete until all required actions are completed and systems are functioning properly. The Office of Servicewide Policy, Directives, and Electronic Research should centralize and control procedural guidance provided to all employees. Our recommendations will protect taxpayers' rights by ensuring the IRS completes the necessary programming to send approximately 14.4 million taxpayers the required statements and notices.

Management's Response: The Director, Tax Administration Coordination, agreed with the recommendations in the report and plans to take appropriate corrective action. The corrective actions planned include sending notices to taxpayers, submitting requests for additional programming, tracking programming changes through to completion, and providing employees with a centralized site to access current job related procedures. Management's complete response to the draft report is included as Appendix VI.

Copies of this report are also being sent to the IRS managers who are affected by the report recommendations. Please contact me at (202) 622-6510 if you have questions or Joseph W. Edwards, Acting Assistant Inspector General for Audit (Headquarters Operations and Exempt Organization Programs), at (202) 622-5916.

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### **Background**

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After a series of hearings on the Internal Revenue Service's (IRS) treatment of taxpayers, the Congress enacted the IRS Restructuring and Reform Act of 1998 (RRA 98),<sup>1</sup> which was signed into law on July 22, 1998. This law changed the IRS' organizational structure, provided additional rights and protection to taxpayers, and required the IRS to improve service to taxpayers. The RRA 98 contains 71 provisions that increase or help protect taxpayers' rights. Section 1102 of the law also created the Treasury Inspector General for Tax Administration (TIGTA) and established requirements for the TIGTA to annually evaluate the IRS' compliance with certain taxpayer rights provisions.

The IRS' efforts and resources needed to implement the RRA 98 were substantial because of the comprehensive nature of this reform law. The RRA 98 included fundamental changes to tax law procedures and required the IRS to change its organizational structure from one that was geographically structured to one that was set up to serve particular groups of taxpayers with similar needs. The reorganization required the IRS to establish new business units to serve individuals, small businesses, large businesses, and tax-exempt organizations.

To help ensure that the large numbers of provisions were implemented within the time period required by the RRA 98, the IRS established a strategy to monitor the implementation efforts. It designated responsible executives to ensure that necessary actions were taken to implement specific RRA 98 provisions timely. A reporting system was established that tracked and reported on each provision and the actions taken to achieve compliance.

The overall objective of our review was to determine the IRS' level of compliance with certain RRA 98 taxpayer rights provisions. The RRA 98 contained a total of 71 provisions that protect taxpayer rights. We reviewed 18 provisions that increased taxpayer rights and protection.

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<sup>1</sup> Pub. L. No. 105-206, 112 Stat. 685 (codified as amended in scattered sections of 2 U.S.C., 5 U.S.C., 5 U.S.C. app., 16 U.S.C., 19 U.S.C., 22 U.S.C., 23 U.S.C., 26 U.S.C., 31 U.S.C., 38 U.S.C., and 49 U.S.C.).

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This included nine provisions for which the RRA 98 requires the TIGTA to conduct an annual review, five provisions the TIGTA reviewed in Fiscal Year (FY) 2000, and four provisions regarding new notices or statements to taxpayers.

We performed fieldwork at the National Headquarters office and discussed RRA 98 implementation with IRS field officials in the former North Texas, Pacific Northwest, and Rocky Mountain district offices. We conducted our review between October 2000 and May 2001. The review was conducted in accordance with *Government Auditing Standards*. Detailed information of our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

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### The Internal Revenue Service Has Improved Compliance With Some of the Taxpayer Rights Provisions, but Further Action Is Needed

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The IRS has made progress in the implementation of the 18 RRA 98 taxpayer rights provisions reviewed. Nonetheless, significant improvement is still needed for some of the provisions. At the time of our review, the IRS' compliance with the 18 provisions varied from achieving full compliance to significant non-compliance. The level of compliance the IRS has achieved with the specific provisions that we reviewed is shown in the following table.

**Status of the 18 RRA 98 Provisions Reviewed**

Status of RRA 98 Provisions Reviewed	Number of Provisions
The IRS is now fully compliant.	3
Additional corrective actions are being taken to increase compliance.	7
The deadlines for implementation have been extended.	3
The IRS was not compliant.	2
Compliance could not be fully evaluated.	3
<b>Total</b>	<b>18</b>

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**The IRS is now fully compliant with three provisions**

***Mitigation of the Failure to Deposit Penalty***

**(RRA § 3304(a))** – This section of the law allowed taxpayers to designate deposits within a quarter to lessen the impact of the failure to deposit penalty for payroll taxes. The IRS has completed the necessary actions to notify taxpayers of this right.

Nonetheless, the IRS did not comply with the provision by January 19, 1999, as required. In August 1999, the IRS corrected the problem by sending out the final apology letters and allowing 90 days for taxpayers to appeal the penalty. However, employees processing the claims did not have the official instructions needed to properly calculate the penalty until August 2000 and did not abate the proper amounts. As a result, the IRS estimates a possible \$168 million in the failure to deposit penalties were abated over the appeal period. We reviewed the 50 highest dollar abatements for the period. For these cases, the penalty was abated in full rather than properly calculated based upon the redesignated deposits.

***Seizure of Property (RRA §§ 3401(b) and 3421)*** – This section of the law added additional requirements and higher levels of approval before a taxpayer's property can be seized for non-payment of taxes. In FY 1999, the TIGTA reported<sup>2</sup> that the IRS was not in compliance with legal and internal guidelines in 36 percent of seizure cases reviewed. The IRS initiated actions to correct these problems. As a result, there

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<sup>2</sup> *The Internal Revenue Service Needs to Improve Compliance with Legal and Internal Guidelines When Taking Taxpayers' Property for Unpaid Taxes* (Reference Number 1999-10-072, dated September 1999).

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were no legal or procedural errors in the cases reviewed for both the FY 2000<sup>3</sup> and FY 2001<sup>4</sup> reviews.

**Notice of Levy (RRA 98 § 3401(b))** – This section of the law required the IRS to notify taxpayers of its intent to levy and their right to an appeals hearing at least 30 days prior to any levy action being taken. In FY 1999, the TIGTA reported<sup>5</sup> that the IRS did not follow legal levy provisions in 32 percent of the cases reviewed. Additionally, the IRS did not follow its own levy procedures in 31 percent of the cases reviewed. In response to the TIGTA FY 1999 report, IRS management decided to implement additional safeguards. In FY 2000, the TIGTA reported<sup>6</sup> that the IRS had significantly improved its compliance with this notice requirement. The FY 2001 TIGTA review indicated that the IRS fully complied with this requirement. New procedures and upgrades to IRS computer systems helped the IRS to comply with this requirement.

Although the IRS is fully compliant with these three provisions, continued monitoring is needed because IRS enforcement actions have declined since the passage of the RRA 98. Enforcement actions may begin to increase now that the IRS has established its new organizational structure and increased its emphasis on the importance of appropriate enforcement actions to ensure compliance with the tax laws.

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<sup>3</sup> *The Internal Revenue Service Has Significantly Improved Compliance With Legal and Internal Guidelines When Seizing Taxpayers' Property* (Reference Number 2000-10-114, dated August 2000).

<sup>4</sup> *Letter Report: The Internal Revenue Service Complied With Legal and Internal Guidelines When Seizing Property for Payment of Tax* (Reference Number 2001-10-061, dated May 2001).

<sup>5</sup> *The Internal Revenue Service Has Not Fully Implemented Procedures to Notify Taxpayers Before Taking Their Funds For Payment of Tax* (Reference Number 1999-10-071, dated September 1999).

<sup>6</sup> *The Internal Revenue Service Has Significantly Improved Its Compliance with Levy Requirements* (Reference Number 2000-10-150, dated September 2000).



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**Additional corrective actions are being taken to increase compliance with seven provisions**

In response to the TIGTA reports issued in FY 2000, the IRS is in the process of taking corrective actions that should improve compliance with seven of the RRA 98 taxpayer rights provisions reviewed. The concerns addressed in these seven FY 2000 reports and the IRS' proposed corrective actions are shown below.

***Innocent Spouse Relief (RRA 98 § 3201)*** – This section of the law made it easier for spouses filing joint returns to qualify for relief under the innocent spouse provisions. In FY 2000, the TIGTA reported<sup>7</sup> that the IRS was not prepared to effectively process the increased volume of innocent spouse claims for relief received after passage of the RRA 98. IRS management did not react timely to predictions of increased innocent spouse claims and did not adequately staff the program when the predictions materialized. This created significant inventory backlogs. While the IRS has made improvements to the Innocent Spouse Program, management has not set sufficient program goals and standards to fully measure and report accomplishments of the program. In addition, the Innocent Spouse Tracking System<sup>8</sup> does not provide accurate or useful information to management. For example, the status of claims is not always timely and accurately recorded.

***Third Party Contacts and Summonses (RRA 98 §§ 3415, 3416, and 3417)*** – These sections of the law provided taxpayers additional rights when the IRS contacts third parties and issues third-party summonses to obtain financial information about the taxpayer. They were passed to help protect taxpayers from inappropriate summonses and contacts that might be issued or solicited by the IRS.

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<sup>7</sup> *Increased Attention Is Needed to Ensure Timely, Accurate Determinations on Innocent Spouse Claims for Relief* (Reference Number 2000-40-063, dated May 2000).

<sup>8</sup> This system is used by the IRS to track Innocent Spouse relief cases.

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In FY 2000, the TIGTA reported<sup>9</sup> that the IRS had properly implemented controls and processes to protect many of the taxpayer rights established by the summons and third-party contact provisions of the RRA 98. However, it could take additional actions to fully protect taxpayer rights. The IRS did not have a system to record and track summonses issued to third parties and its quality review process did not adequately evaluate whether IRS employees complied with third-party summons requirements. In addition, a more customer-friendly third-party contact notice needed to be timely developed to inform taxpayers of their rights and explain the IRS' policy of working with the taxpayers to obtain needed information before third parties are contacted. In response, the IRS has revised the notice, is currently implementing a process to modify systems to ensure that taxpayer rights are protected, and plans to include third-party summons requirements in the quality review process.

***Notices of Lien (RRA § 3401(a))*** – This section of the law required the IRS, as of January 19, 1999, to notify taxpayers in writing, within 5 business days, of the filing of a federal tax lien. The IRS letter, “Notice of Federal Tax Lien Filing and Your Right to a Hearing” (Letter 3172), is used for this purpose. In FY 2000, the TIGTA reported<sup>10</sup> that the IRS had improved compliance with the notice of lien requirements. However, compliance with taxpayer notification that a lien has been filed had not yet been achieved in all cases, and the IRS was still not compliant with legal and internal guidelines in 17 percent of the cases reviewed.

In some instances, lien notices were not timely sent, and in other instances the taxpayer representatives were not provided a copy of the lien notice. Certified mail listings,

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<sup>9</sup> *The Internal Revenue Service Should Enhance Processes and Controls To Protect Taxpayers' Rights When Issuing Third Party Summonses and Making Third Party Contacts* (Reference Number 2000-40-064, dated April 2000).

<sup>10</sup> *Compliance With Requirements for Notifying Taxpayers of Federal Tax Lien Filings Has Not Yet Been Achieved* (Reference Number 2000-10-152, dated September 2000).

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which are used to substantiate that lien notices were sent to taxpayers, could not be located in some cases. The IRS has taken steps which should help ensure lien notices are sent timely to the correct addresses and that taxpayer rights are protected. It has also completed computer programming to provide copies of lien notices to taxpayer representatives.

***Enforcement Statistics (RRA 98 § 1204)*** – This section of the law prohibited the IRS from using enforcement statistics to evaluate employees or to suggest production quotas or goals. In FY 1999, the TIGTA reported<sup>11</sup> that the IRS was not in full compliance with this provision. There were still instances in which tax enforcement results were being used to evaluate employees or to impose or suggest production quotas or goals. The IRS revised its guidelines on the use of enforcement statistics and established one office to be responsible for overseeing the process of certifying whether or not enforcement statistics were used to evaluate employees.

In FY 2000, the TIGTA reported<sup>12</sup> that most employee evaluations and management documents did not contain tax enforcement results and did not impose production quotas and goals. However, there were some instances when records of tax enforcement results were used inappropriately. These potential violations were identified by IRS managers' self-certifications (85 violations) as well as the IRS' independent review process (133 violations). Based on a sample, the TIGTA identified four additional potential violations that had not been identified by the IRS' self-certifications or independent review process. In addition, employees were not always provided with or evaluated on the performance standard requiring the fair and equitable treatment of taxpayers, as required by the RRA 98.

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<sup>11</sup> *The Internal Revenue Service Should Continue Its Efforts to Achieve Full Compliance with Restrictions on the Use of Enforcement Statistics* (Reference Number 1999-10-073, dated September 1999).

<sup>12</sup> *Further Improvements Are Needed in Processes That Control and Report Misuse of Enforcement Statistics* (Reference Number 2000-10-118, dated September 2000).

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The IRS proposed corrective actions to further improve the reliability of the self-certifications and independent review process, which are important controls to identify and report misuse of enforcement statistics. It also planned to incorporate the fair and equitable treatment standard into both the job elements and performance rating forms of all employees.

***Illegal Tax Protester Designation (RRA 98 § 3707)*** – This section of the law prohibits the IRS from designating taxpayers as Illegal Tax Protesters (ITP) or any similar designation. In FY 2000, the TIGTA reported<sup>13</sup> that the IRS did remove the coding from the Masterfile<sup>14</sup> as required, but other IRS computer inventory systems still had the coding and references that identify taxpayers as protesters. The original computer programming request to eliminate the coding was not completed. Additionally, IRS case files created after the RRA 98 effective date and some publications and employee training documents also contained such references. The IRS has since requested additional programming changes to remove ITP coding from the Examination and Taxpayer Advocate inventory systems. The IRS is also taking action to eliminate references from publications and employee training manuals.

***Offer in Compromise Determinations (RRA 98 § 3462)*** – This section of the law required that Offer in Compromise (OIC) processing guidelines include certain taxpayer rights and protections. For example, taxpayers entering into an OIC must be allowed an adequate means to provide for basic living expenses. An OIC must not be rejected based solely on the amount of the offer, and there must be an independent administrative review of any OIC the IRS

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<sup>13</sup> *Additional Action Is Needed to Eliminate Illegal Tax Protester Designations* (Reference Number 2000-10-119, dated September 2000).

<sup>14</sup> The IRS database that stores various types of taxpayer account information. This database includes individual, business, and employee plans and exempt organizations data.

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rejects. In FY 2000, the TIGTA reported<sup>15</sup> that the IRS overlooked opportunities to ensure taxpayers were treated consistently and received the full benefit of the changes made in the RRA 98 legislation for the OIC program. For example, taxpayers who had an OIC rejected by the IRS were not informed that the acceptance criteria were being revised and that they could resubmit the OIC if they thought the changes would be favorable to them.

In addition, IRS guidelines needed to be revised to allow further flexibility in determining an acceptable offer amount. The IRS form used by taxpayers for submitting an OIC should have explained in more detail all of the information a taxpayer needs to provide with his or her application to avoid processing delays or rejections. Further, OIC rejection letters did not always contain enough information for taxpayers to prepare an effective appeal. To address these concerns, the IRS has made changes to publications and its own internal procedures and is planning to provide more information to taxpayers when rejecting an OIC.

***Assessment Statute Extensions (RRA 98 § 3461(b))*** – This section of the law required the IRS to advise taxpayers of their rights to refuse to extend the statute of limitations or to request that a statute extension be limited to a specific period of time or to specific issues. The law became effective for extensions requested after December 31, 1999. In FY 2000, the TIGTA reported<sup>16</sup> that in most cases the IRS advised taxpayers of their rights when extending the assessment statute of limitations. However, there were some instances in which the IRS had not documented whether taxpayers were advised of their rights. To ensure that taxpayers are properly advised of these rights, the IRS plans to require managers to review the cases before approving the extensions. The IRS also plans to revise

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<sup>15</sup> *More Taxpayers Can Benefit From the New Offer in Compromise Provisions* (Reference Number 2000-40-093, dated June 2000).

<sup>16</sup> *Information Provided to Taxpayers When Requesting Extensions of the Assessment Statute of Limitations Can Be Improved* (Reference Number 2000-10-142, dated September 2000).

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*Extending the Tax Assessment Period* (Publication 1035) to more fully explain the process and taxpayers' rights in responding to a request to extend the assessment statute of limitations.

Overall, the IRS has made some progress in the implementation of these seven provisions. In addition, the proposed corrective actions should help the IRS achieve higher levels of compliance.

### **The deadlines for implementation have been extended for three provisions**

IRS officials became concerned that not all requirements could be met by the effective dates imposed by the RRA 98 and informed the Congress before July 2000 that additional time would be needed to implement three provisions. The Congress extended the deadlines for these three requirements with the passage of the Community Renewal Tax Relief Act of 2000.<sup>17</sup> Additional actions are still needed before these provisions will be fully implemented.

***Annual Installment Agreement Statements (RRA § 3506)*** – This section of the law required the IRS to begin providing annual installment agreement statements no later than July 1, 2000, to taxpayers with active installment agreements. This deadline was extended to September 1, 2001, with the passage of the Community Renewal Tax Relief Act of 2000.

The IRS was unable to meet the original deadline due to programming problems with commercial off-the-shelf software products. IRS management decided not to use these products to generate the installment statements because of problems with programming, statement format, and printing.

During our review, we advised the IRS that a request for programming changes needed to generate these notices had not been finalized. Subsequently, the IRS finalized the request and completed programming of the Masterfile to

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<sup>17</sup> Pub. L. 106-554 (December 21, 2000).

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generate the initial installment agreement statements. Approximately 5.7 million taxpayers with installment agreements will be affected by this requirement.

***Notices of Penalties Imposed (RRA 98 § 3306)*** – This section of the law required the IRS to include with notices issued after December 31, 2000, the name of the penalty, the code section that imposes the penalty, and the computation for determining the amount of the penalty. However, the IRS programming was not in place to send taxpayers their notices of penalties imposed by December 31, 2000. The Community Renewal Tax Relief Act of 2000 extended this deadline to June 30, 2001, for the IRS to provide a telephone number at which the taxpayer can obtain penalty information, and to July 1, 2003, to provide the detailed notice. The IRS completed the necessary programming to include this information with notices on the Individual Masterfile accounts by January 2001.

However, the IRS has not completed the necessary programming requests to send notices for taxpayer accounts on the Integrated Data Retrieval System (IDRS),<sup>18</sup> Automated Collection System (ACS),<sup>19</sup> and Integrated Collection System (ICS).<sup>20</sup> Programming changes are needed for these systems in order to send the appropriate notices to approximately 8.7 million taxpayers.

***Notices of Interest Assessed (RRA 98 § 3308)*** – This section of the law required the IRS to begin sending detailed computations of interest charges and the related Internal Revenue Code (I.R.C.) section which governed the rate and computation of interest with notices issued after December 31, 2000. The IRS did not have the programming in place to send the same approximately 8.7 million taxpayers their notices of interest by

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<sup>18</sup> The IRS computer system capable of retrieving or updating stored information; it works in conjunction with a taxpayer's account records.

<sup>19</sup> The IRS computerized call site operation which contains taxpayer accounts that require telephone contact for resolution.

<sup>20</sup> The IRS computer system which contains the inventory of taxpayer accounts that require field contact for resolution.

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December 31, 2000, and advised the Congress that this deadline could not be met. The Community Renewal Tax Relief Act of 2000 extended the deadline to June 30, 2001, for the IRS to provide a telephone number at which the taxpayer can obtain interest information, and to July 1, 2003, to provide the detailed notice of interest.

The IRS completed the necessary programming to include this information with notices on the Individual Masterfile accounts by January 2001; however, the IDRS, ACS, and ICS have still not had the requests for programming completed.

### **The IRS was not compliant with two provisions**

The IRS did not fully comply with two of the RRA 98 provisions we reviewed because of delays and other implementation problems. Additional actions are needed to implement these provisions:

***Dual Notices for Joint Filers (RRA 98 § 3201)*** – This section of the law required the IRS, where practicable, to send any notice relating to a joint return separately to each spouse on the return. The Congress was concerned that the failure to timely notify both spouses of their joint tax liabilities creates burden to the spouse who has not been notified.

Although this provision became effective July 22, 1998, the IRS did not appoint a centralized office for completing the dual notice requirement until February 1999, over 6 months after the law went into effect. The IRS also had problems determining which notices should be included and still has not completed the computer programming necessary to systematically send these notices on the Individual Masterfile, IDRS, ACS, and ICS. As a result, notices were not being sent to each spouse separately.

***Collection Statute Extensions (RRA 98 §§ 3461(a) and (c))*** – RRA 98 § 3461(a) prohibited the IRS from extending the collection statute of limitations except in connection with an installment agreement or levy release. RRA 98 § 3461(c) provides that collection statute extensions requested before the effective date of the law, January 1, 2000, that are not in



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connection with an installment agreement, will expire on the later of the 10-year collection statute of limitations date or December 31, 2002.

In FY 2001, the TIGTA reported<sup>21</sup> that the IRS was not fully complying with these requirements. Collection statute extensions were sometimes secured without also securing the related installment agreement or levy release as required by law and internal procedures. In most of the cases in which the case history was available, it appeared that the IRS and the taxpayer intended to establish an installment agreement; however, the installment agreement was never processed or approved.

In cases where the extension was requested before January 1, 2000, the IRS' actions may not allow the necessary time to accurately update collection statute expiration dates and to collect over \$289 million in tax liabilities. Further, the IRS could not provide the documents needed to support some of the collection statute extensions recorded on its computer systems. Finally, many of the collection statute extensions and installment agreements reviewed did not have the full payment date calculated properly, which caused the collection statute date to be miscalculated.

### **Compliance could not be fully evaluated for three provisions**

The following three provisions could not be fully evaluated because the IRS' systems are either not designed to track the information or there were problems with the information tracked:

***Direct Contact with Taxpayers (RRA 98 § 3502)*** – This section of the law required IRS employees to stop an interview with a taxpayer whenever a taxpayer requests to consult with a representative.

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<sup>21</sup> *Improvements Are Needed to Comply With Legal and Procedural Requirements for Collection Statute Extensions and Installment Agreements* (Reference Number 2001-10-103, dated August 2001).

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In both FY 1999<sup>22</sup> and FY 2000,<sup>23</sup> the TIGTA reported that compliance could not be evaluated because the IRS was unable to readily identify cases in which the taxpayer requested to consult with a representative or cases in which the IRS contacted the taxpayer directly and bypassed the representative. The IRS has not changed its processes for handling these types of requests.

### ***Complaints of Employee Misconduct***

***(I.R.C. § 7803(d)(2)(A) (2000))*** – This section of the law required the TIGTA to include in each semiannual report to the Congress the number of taxpayer complaints, the number of employee misconduct and taxpayer abuse allegations, and a summary of the status and disposition of such complaints and allegations. This information should include complaints and allegations received by both the IRS and the TIGTA. Although the IRS provided the TIGTA with this information, the number of complaints and allegations could not be verified because of possible duplications on the IRS systems used to track this information. To improve its complaint processing system, the IRS has a short-term plan to develop a complaint database by integrating data from existing computer systems.

***Fair Debt Collection Practices Act (RRA 98 § 3466)*** – This section of the law requires the IRS to conform to certain applicable portions of the Fair Debt Collection Practices Act (FDCPA).<sup>24</sup> This was to ensure that taxpayers are allowed representation and are not contacted at an inappropriate time or place. The provision also prohibits the harassment or abuse of taxpayers during the collection process. The IRS uses the Automated Labor and Employee Relations

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<sup>22</sup> *The Internal Revenue Service Needs to Enhance Guidance on and Monitoring of Compliance with Procedures for Directly Contacting Taxpayers and Their Representatives* (Reference Number 1999-10-076, dated September 1999).

<sup>23</sup> *Letter Report: Improvements Have Been Implemented for Directly Contacting Taxpayers and Their Representatives* (Reference Number 2000-10-132, dated September 2000).

<sup>24</sup> 15 U.S.C. §§ 1601 note, & 1692-1692o (1994 & Supp. IV 1998).

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Tracking System (ALERTS) to track a wide range of employee misconduct cases, including potential violations of the FDCPA.

The TIGTA reviews in FYs 1999, 2000, and 2001 identified seven cases, closed during the period July 22, 1998, to December 31, 2000, where IRS management substantiated that a potential FDCPA violation occurred. Two of the seven cases resulted in administrative action against an employee and the remaining five resulted in oral or written counseling (less serious than administrative action).

However, we could not determine if these were the only potential FDCPA violations during this period for the following reasons:

- The ALERTS did not have codes for potential FDCPA violations until March 1999.
- Internal procedures restricted use of these codes until September 1999.
- Managers did not always recognize potential FDCPA allegations.
- Internal procedures did not specifically require IRS managers to forward all potential FDCPA violations to the local Labor Relations office until February 23, 2000.

In addition, we identified 26 cases on the ALERTS that were not correctly coded as potential FDCPA violations. If this information is not correctly tracked on the ALERTS, IRS management will not know the extent of the potential FDCPA violations. Also, if management is not sufficiently aware of applicable FDCPA provisions, taxpayer complaints of these issues may not be properly identified and reported to the local Labor Relations offices for determination of appropriate action.

### **Recommendations**

1. The Director, National Program Filing and Payment Compliance, Small Business/Self-Employed (SB/SE) Division, should complete computer programming

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changes for annual installment agreement notices before the extended deadline imposed by the Congress.

Management's Response: The IRS completed the programming changes and is currently in the process of sending out the annual installment statements. The IRS has scheduled the distribution of 5.7 million notices over an 8-week period, which will meet the deadline of September 2001 imposed by the Congress.

2. The Director, Reporting Compliance, SB/SE Division, should complete a request for programming changes for the IDRS, ACS, and ICS to print detailed interest and penalty notices.

Management's Response: The IRS has formed a working group to develop the additional programming requirements to enable the IDRS, ACS, and ICS to use the interest and penalty computation tables to print the required notices.

3. The Director, Communications Assistance, Research and Education, Wage and Investment Division, should complete a request for programming changes for the IDRS, ACS, and ICS to send notices relating to a joint return separately to each spouse on the return.

Management's Response: The IRS obtained input from internal organizations and conducted focus groups with Citizens Advocacy Panels to solicit input on which notices would be most helpful to joint return taxpayers. The IRS has submitted programming requests and plans to complete the programming necessary for the IDRS, ACS, and ICS to send dual notices to all joint taxpayers by January 2003.

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### **The Processes to Implement and Track Procedural and Systems Changes Could Be Improved**

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Because of the large number of RRA 98 provisions that the IRS had to implement, an extensive effort was needed to ensure timely compliance with the provisions of this law. The IRS designated executives to be responsible for implementing specific RRA 98 provisions and a network of managers and employees to track the progress of the RRA 98 implementation. The IRS also created a tracking system and a provision report to track implementation of

## **Compliance With Certain Taxpayer Rights Provisions Contained in the Internal Revenue Service Restructuring and Reform Act of 1998 Could Be Improved**

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procedural and computer programming changes needed to comply with each of the RRA 98 provisions.

While this system helped ensure that necessary actions were initiated, it did not ensure effective implementation of procedural changes or track programming changes through to completion.

### **The system used to track implementation efforts could be enhanced**

The IRS Legislative Implementation Tracking System (LITS) Provision Report (previously called the RRA 98 Provision Report) does not track information systems programming changes through to completion. The LITS is a project management tool that the IRS uses to monitor the implementation of new legislation. The IRS breaks down various provisions or sections of a piece of legislation needing programming or procedural changes into specific action items or tasks, which are tracked on the LITS.

However, for the RRA 98 implementation, the LITS did not track action items or tasks through the completion of information systems changes. The only two tasks tracked by the LITS for these types of changes were the development of the Requests for Information Services to request programming changes and the responses from Information Technology Services that the requests had been received. These two tasks only showed when the actions were requested by the IRS function and received by the Information Systems function but not that the assigned task had been completed. The Office of Tax Administration Coordination (OTAC) personnel stated that since the LITS does not track programming through to completion, the Information Technology Services Division was responsible for tracking the completion of programming changes. The Information Technology Services Division tracks the progress of the programming on a separate system, the Requests for Information Services Tracking and Reporting System (RTRS).

Nonetheless, provisions were reported as complete on the LITS even though information systems programming

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changes had not been completed. For example, one provision (RRA 98 § 3444 - Codification of Administrative Procedures) was shown as completed in May 1999, although the Information Technology Services Division did not actually complete the programming until January 1, 2001. Additionally, by not tracking the completion of information systems changes, the LITS process did not identify that the interest and penalty notices would be delayed because of the complex programming issues. Problems with programming were identified by the IRS' own reviews of detailed penalty and interest notices required in RRA 98 §§ 3306 and 3308.

The IRS stated that it was in the process of integrating the RTRS with the LITS so it could more accurately track programming changes.

### **Procedural changes could be improved**

The RRA 98 required the IRS to complete many procedural changes. Procedures for the provisions that we reviewed were not always issued timely and some involved numerous changes, often extending past the effective date of the provisions. The 31 sections of the Internal Revenue Manual (IRM) that were related to the 18 RRA 98 provisions discussed in this report required, on average, 2 changes to procedures and 9 months to complete all the revisions.

Because of the time required to change an IRM section, the IRS frequently used memoranda and other means to advise employees of procedural changes. Employees stated that the numerous procedural changes and different methods of disseminating updated information caused confusion and slowed down processing. In addition, the IRS did not adequately test some of the new procedures with field employees before implementation to determine the impact on casework processing. For example, higher approval levels were required for Notices of Federal Tax Liens and Notices of Levy at the Automated Collection System sites, which caused a dramatic increase in the inventories of unprocessed liens and levies (waiting for managerial approval).

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Additionally, the IRS could not always provide information showing that procedural changes had been approved. Changes to the IRM are normally routed on a Document Clearance Record (Form 2061). Form 2061 shows the appropriate official making the change and the approvals to change the IRM section as submitted. The IRS could not provide us with copies of any of the Forms 2061 for the 31 IRM sections we reviewed. IRS procedures state that Forms 2061 are to be maintained at the Chief Counsel Library. However, the Chief Counsel Library did not have the Forms 2061 for these 31 IRM sections. In these instances, IRS officials responsible for forwarding these documents did not follow procedures. After briefing the IRS that we were unable to locate the Forms 2061, IRS management conducted their own search, located several of the documents, and are in the process of organizing the library.

**New business units need to have proper procedural guidance available**

The IRS put into effect a new organizational structure as of October 1, 2000, which included a transition to four new business units. The IRS will continue to use the IRM to provide official policies and procedures to its employees. Currently, the IRS is in the process of centralizing its management of the IRM. In the past, the IRS assigned individual owners to oversee sections of the IRM. The IRS established the Office of Servicewide Policy, Directives, and Electronic Research, in December 1999, to coordinate the IRM revision process within the new business unit structure.

The IRS Commissioner briefed Congressional Committees that the IRM revisions will be completed (for its new organizational structure) by January 2002. The IRS has established an action plan to support the IRM revision process; however, the IRS must ensure that the new organizational business units have the proper procedural guidance available to its employees while the manuals are being updated. The IRS currently has several versions of the IRM available to employees. For example, the four new

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business unit web sites all provide IRM links to their employees; however, sometimes the links are to versions of the IRM that contain sections with different revision dates and content. To minimize confusion and delays in case processing in the new organization, procedures and policies should be consistent and employees should have one source in which to research policies and procedures.

### **Recommendations**

4. The Office of Tax Administration Coordination should ensure that the tracking system for new legislative changes does not show provisions as complete until all required actions, including the completion of information systems changes, are completed and systems are functioning properly.

Management's Response: The IRS has added a third action item on the LITS to track the operational implementation of the requested programming change. The IRS is using this action item for the implementation of new legislation. The IRS is also planning to integrate the LITS with the RTRS.

5. The Office of Servicewide Policy, Directives, and Electronic Research (SPDER) should reemphasize to Publishing Division personnel and IRM coordinators the importance of making sure requests for IRM changes contain Forms 2061 and are forwarded to the Chief Counsel Library for filing.

Management's Response: The IRS has revised its IRM and developed a new Form 2061-A, which includes instructions for preparing and reviewing a file before it is submitted for publication. The IRS will not accept incomplete IRM packages for printing. It is also continuing to stress to coordinators the need to retain document clearance records in the library.

6. The Office of SPDER should centralize and control procedural guidance provided to all IRS business unit employees to ensure they have access to uniform, up-to-date procedures.



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Management's Response: The Office of SPDER has taken or is taking the following actions:

- Prepared a guide which sets forth all of the procedures and expectations for authoring and updating the IRM.
- Provided IRS employees with an on-line IRM through the SPDER web site. This is a centralized IRM site available to all employees.
- Included all issued memoranda and instructions on the SPDER web site.
- Established a procedure which requires that interim guidance issued in the form of a memorandum include an expiration date of 1 year, at which time it will be either made obsolete or incorporated into the IRM.
- Is updating a list of IRM owners and expects to incorporate this listing into the IRM index.

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**Appendix I**

**Detailed Objective, Scope, and Methodology**

The overall objective of the review was to determine the Internal Revenue Service's (IRS) level of compliance with certain IRS Restructuring and Reform Act of 1998 (RRA 98)<sup>1</sup> taxpayer rights provisions. To achieve this objective, we performed the following tests:

- I. Reviewed the Treasury Inspector General for Tax Administration (TIGTA) and the General Accounting Office Fiscal Year (FY) 1999 and FY 2000 audit reports as well as ongoing FY 2001 audits related to the RRA 98 taxpayer rights provisions.
- II. Reviewed 18 RRA 98 provisions that increased taxpayer rights and protection. This included nine provisions for which the RRA 98 requires the TIGTA to conduct an annual review, five provisions the TIGTA reviewed in FY 2000, and four provisions regarding new notices or statements to taxpayers. We also reviewed IRS' Legislative Affairs documents related to the status of RRA 98 taxpayer rights provisions.
- III. Reviewed relevant controls and procedures the IRS initiated to implement RRA 98 taxpayer rights issues.
- IV. Identified problems in implementing RRA 98 taxpayer rights provisions.
  - A. Obtained and reviewed internal IRS reports completed regarding the implementation of RRA 98 provisions.
  - B. Evaluated difficulties that the IRS encountered implementing RRA 98 taxpayer rights provisions.
  - C. Interviewed IRS management and discussed their concerns with the IRS' implementation of and difficulties with implementing RRA 98 taxpayer rights issues.
- V. Determined whether the IRS' level of compliance with specific provisions indicated that taxpayers' rights were adequately protected.

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<sup>1</sup> Pub. L. No. 105-206, 112 Stat. 685 (codified as amended in scattered sections of 2 U.S.C., 5 U.S.C., 5 U.S.C. app., 16 U.S.C., 19 U.S.C., 22 U.S.C., 23 U.S.C., 26 U.S.C., 31 U.S.C., 38 U.S.C., and 49 U.S.C.).

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**Appendix II**

**Major Contributors to This Report**

Maurice S. Moody, Assistant Inspector General for Audit (Headquarters Operations and Exempt Organizations Programs)

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Kent S. Johnson, Senior Auditor

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David Clous, Computer Specialist

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**Appendix III**

**Report Distribution List**

Commissioner N:C  
Deputy Commissioner N:DC  
Chief Counsel CC  
Deputy Commissioner for Modernization & Chief Information Officer M  
Commissioner, Small Business/Self-Employed Division S  
Commissioner, Wage and Investment Division W  
Chief, Information Technology Services M:I  
Director, Compliance, Small Business/Self-Employed Division S:C  
Director, Compliance, Wage and Investment Division W:CP  
Director, Customer Assistance, Relationships and Education W:CAR  
Director, Media and Publications W:CAR:MP  
Director, National Program Filing and Payment Compliance, Small Business/Self-Employed Division S:C  
Director, Office of Servicewide Policy, Directives, and Electronic Research N:ADC:H:SPDR  
Director, Reporting Compliance, Small Business/Self-Employed Division S:C  
Director, Legislative Affairs CL:LA  
Director, Office of Program Evaluation and Risk Analysis N:ADC:R:O  
National Taxpayer Advocate TA  
Office of Management Controls N:CFO:F:M  
Audit Liaisons: Commissioner, Small Business/Self-Employed Division S  
                  Commissioner, Wage and Investment Division W  
                  Chief, Information Technology Services M:I

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**Appendix IV**

**Outcome Measures**

This appendix presents detailed information on the measurable impact that our recommended corrective actions will have on tax administration. These benefits will be incorporated into our Semiannual Report to the Congress.

Type and Value of Outcome Measure:

- Taxpayer Rights – Potential; approximately 5.7 million taxpayers will receive their installment agreement statements as required by the Internal Revenue Service (IRS) Restructuring and Reform Act of 1998 (RRA 98)<sup>1</sup> by the September 1, 2001, deadline if the IRS completes the programming requests as recommended (see page 2).

Methodology Used to Measure the Reported Benefit:

We obtained the IRS' Accounts Receivable Dollar Inventory (ARDI) report<sup>2</sup> to determine the number of taxpayer accounts that were in installment agreement status as of September 23, 2000. At that time, the report listed a total of 2,478,633 taxpayers in installment agreement status.

However, in its response to our draft report, the IRS advised us that it plans to distribute 5.7 million statements (3,879,251 to individual taxpayers; 1,551,505 to spouses listed on joint tax returns; 169,891 to taxpayer representatives; and 114,583 to business taxpayers).

Type and Value of Outcome Measure:

- Taxpayer Rights – Potential; approximately 8.7 million taxpayers will receive detailed explanations of penalties and interest assessed as required by the RRA 98 if the IRS completes the programming requests as recommended (see page 2).

Methodology Used to Measure the Reported Benefit:

We obtained the IRS' ARDI report to determine the number of taxpayers who should receive the notice. There were 13,387,131 taxpayer accounts with tax balances due as of September 23, 2000. We eliminated 4,726,526 accounts on the ARDI listing that either would

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<sup>1</sup> Pub. L. No. 105-206, 112 Stat. 685 (codified as amended in scattered sections of 2 U.S.C., 5 U.S.C., 5 U.S.C. app., 16 U.S.C., 19 U.S.C., 22 U.S.C., 23 U.S.C., 26 U.S.C., 31 U.S.C., 38 U.S.C., and 49 U.S.C.).

<sup>2</sup> This is a national report generated by the IRS which lists taxpayer accounts with balances due categorized by account status and total amount due, including penalties and interest.

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not have notices generated from the Automated Collection System (ACS), Integrated Collection System (ICS), or Integrated Data Retrieval System (IDRS) or where there was a doubt as to whether the IRS would be subject to the requirements of the law for certain taxpayer accounts, such as bankruptcy cases. There were 8,660,605 remaining taxpayer accounts with tax balances due on the IRS inventory systems that are not yet programmed to provide the notices.

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**Appendix V**

**Internal Revenue Service Restructuring and Reform Act of 1998<sup>1</sup>  
Taxpayer Rights Provisions Reviewed**

<b>Taxpayer Rights Provision</b>		<b>RRA 98 Section(s)</b>
1	Restrictions on the use of enforcement statistics to evaluate employees	RRA 98 § 1204
2	Restrictions on directly contacting taxpayers instead of authorized representatives	RRA 98 § 3502
3	Notice requirements for Liens	RRA 98 § 3401(a)
4	Notice requirements for Levies	RRA 98 § 3401(b)
5	Requirements and approval levels for seizures	RRA 98 §§ 3401(b) and 3421
6	Prohibition on designating taxpayers as Illegal Tax Protesters	RRA 98 § 3707
7	Complaints and allegations of Internal Revenue Service (IRS) employee misconduct and related employee terminations	Internal Revenue Code (I.R.C.) § 7803(d)(2)(A) (2000)
8	Administrative or civil actions against the IRS with respect to the Fair Debt Collection Practices Act of 1996 <sup>2</sup>	RRA 98 § 3466
9	Taxpayers must be notified of the right to refuse or limit extensions of the Statute of Limitations for Assessment of Tax	RRA 98 § 3461(b)
10	Collection Statute Extensions must be related to installment agreements or levy releases	RRA 98 § 3461(a) and (c)
11	Innocent spouse provisions to protect married taxpayers from tax misdeeds of spouses	RRA 98 § 3201
12	Third-party summons requirements and protections to taxpayers who are under investigation	RRA 98 §§ 3415, 3416, and 3417
13	Guidelines for determining if a proposed Offer in Compromise is adequate	RRA 98 § 3462
14	Installment agreement statements must be provided with yearly activity and balance due	RRA 98 § 3506
15	Itemization of interest charges provided to taxpayers	RRA 98 § 3308
16	Itemization of penalties and applicable I.R.C. section provided to taxpayers	RRA 98 § 3306
17	Dual Notices must be sent separately to joint filers when a liability arises	RRA 98 § 3201
18	Designating payroll tax deposits to minimize the Failure to Deposit penalty	RRA 98 § 3304(a)

Source: *IRS Restructuring and Reform Act of 1998 (RRA 98)*.

<sup>1</sup> Pub. L. No. 105-206, 112 Stat. 685 (codified as amended in scattered sections of 2 U.S.C., 5 U.S.C., 5 U.S.C. app., 16 U.S.C., 19 U.S.C., 22 U.S.C., 23 U.S.C., 26 U.S.C., 31 U.S.C., 38 U.S.C., and 49 U.S.C.).

<sup>2</sup> 15 U.S.C. §§ 1601 note, & 1692-1692o (1994 & Supp. IV 1998).

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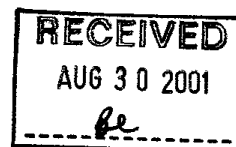
Appendix VI

**Management's Response to the Draft Report**



DEPARTMENT OF THE TREASURY  
INTERNAL REVENUE SERVICE  
WASHINGTON, D.C. 20224

AUG 28 2001



MEMORANDUM FOR DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM:

Judith B. Tomaso

Director, Tax Administration Coordination

*Pushed from Judy Tomaso*

SUBJECT:

Draft Audit Report – Compliance With Certain Taxpayer Rights Provisions Contained In The Internal Revenue Service Restructuring and Reform Act of 1998 Could Be Improved.

I appreciate the opportunity to review and comment on the subject draft audit report. Your report addresses compliance with eighteen provisions in the Internal Revenue Service Restructuring and Reform Act of 1998 that enhance taxpayer rights.

In order to fulfill the mandate Congress gave us in this legislation, many changes were required in every aspect of how the IRS works. However, our first priority was implementation of the 71 taxpayer rights provisions in the legislation, many of which were effective either on the date of enactment or within six months of it. Given the short timeframes, our capacity to provide guidance to the public and to employees and to conduct training for the 100,000 employees affected was stretched to the limit.

Many of the steps taken were unique to the implementation of this legislation and were set in motion prior to the legislation's effective date. We took the following actions:

- Assigned IRS executives cross-functional implementation responsibility for each provision.
- Established a National Resource Center on the IRS' Intranet site to coordinate policy and program questions to ensure that consistent messages were sent to all employees.
- Used a real-time database to record and monitor the progress of more than 1,600 actions needed to implement the legislation.
- Identified and trained approximately 185 field coordinators representing each district, region and service center to be local points of contact for coordination and questions.



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At your request, we have reviewed the benefit summary contained in Appendix III. We agree with your estimate of the number of taxpayers who will receive penalty and interest explanations. However, we disagree with your estimate for recipients of the annual installment agreement statement. The IRS will be distributing approximately 5.7 million statements (Individual Master File - 3,879,251; Spousal Address Check - 1,551,505; Centralized Authorization File - 169,891; and Business Master File - 114,583).

Also, we agree with your recommendations. In fact, we have already completed corrective actions for recommendations 3 - 6.

Our comments on the recommendations in this report are as follows:

**IDENTITY OF RECOMMENDATION 1**

The Director, National Program Filing and Payment Compliance, Small Business/Self-Employed (SB/SE) Division, should complete computer programming changes for annual installment agreement notices before the extended deadline imposed by the Congress.

**ASSESSMENT OF CAUSE**

The Community Renewal Taxpayer Relief Act extended the date for compliance from July 2000 to September 2001.

**CORRECTIVE ACTION**

Information Technology Services (ITS) has completed work on RIS number COL-1-0006. During June 2001, they completed SAT testing. ITS transmitted test files to the Detroit Computing Center on June 19 for pre-production notice testing and reviewed the files. Live notice production also began in June in Ogden where they performed a sample review. We scheduled the distribution of 5.7 million notices over an 8-week period, which will meet the extended deadline of September 2001.

**IMPLEMENTATION DATE**

October 1, 2001

**RESPONSIBLE OFFICIALS**

Director, Filing and Payment, SB/SE  
Director, Reporting Compliance, SB/SE

**CORRECTIVE ACTION MONITORING PLAN**

The appropriate staff will advise the Director, Reporting Compliance, and the Director, Filing and Payment Compliance, of any delay, change or problem with implementation.

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**IDENTITY OF RECOMMENDATION 2**

The Director, Reporting Compliance, SB/SE Division, should complete a request for programming changes for the IDRS, ACS, and ICS to print detailed interest and penalty notices.

**ASSESSMENT OF CAUSE**

The Community Renewal Taxpayer Relief Act extended the implementation date from December 31, 2000 to July 1, 2003.

The IRS completed the necessary programming requests to include this information with notices on the Individual Masterfile accounts by January 2001. However, we have not completed the programming requests for the IDRS, ACS, and ICS systems.

**CORRECTIVE ACTION**

We submitted RIS number EXM-10036-P00 on February 27, 2001 to provide the interest and penalty computation tables to be used with the revised notices. However, we will need additional RIS's to enable sub-systems to use these tables. We have formed a working group to develop the additional programming requirements.

**IMPLEMENTATION DATE**

July 1, 2003

**RESPONSIBLE OFFICIALS**

Director, Reporting Compliance, SB/SE  
Director, Filing and Payment, SB/SE

**CORRECTIVE ACTION MONITORING PLAN**

The appropriate staff will advise the Director, Reporting Compliance, and the Director, Filing and Payment Compliance, of any delay, change or problem with implementation.

**IDENTITY OF RECOMMENDATION 3**

The Director, Customer Assistance, Relationships and Education, Wage and Investment Division, should complete a request for programming changes for the IDRS, the ACS, and the ICS to send notices relating to a joint return separately to each spouse on the return.

**ASSESSMENT OF CAUSE**

The failure to timely notify both spouses of their joint tax liabilities creates burden to the spouse who has not received notification.

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**CORRECTIVE ACTION**

The IRS recognized that implementation of this provision could cause confusion among taxpayers if not done carefully. Therefore, we obtained input from various functional organizations within the IRS about what percent of notices we should send to both parties on joint accounts. In addition, we conducted focus groups with Citizens Advocacy Panels (CAP) to solicit their input on what would be the most helpful to taxpayers. The CAP representatives also reviewed the explanatory paragraph we plan to include on the dual notices.

Following this, ITS began its programming efforts. The original RIS (TCP-9-0200) dated February 8, 2000 (amended August 14, 2000) covered all notices to be sent on a dual basis. We submitted another RIS on February 28, 2001 (WCA-1-0100-A00). The latter RIS clarified the programming requirements and addressed IDRS, ICS and ACS.

ITS knew they would need to create a link between stand-alone notice systems and the name and address information they would need to generate dual notices. Therefore, a two-phase implementation approach was approved. In January 2001, the IRS began sending notices to many joint filers who receive Master File notices. The remaining systems will not begin to issue dual notices until January 2003. This will allow ITS to create the link to the necessary entity information for IDRS, ICS, and ACS.

**IMPLEMENTATION DATE**

Completed.

**RESPONSIBLE OFFICIALS**

Director, Customer Assistance, Relationships and Education  
Director, Media and Publications

**CORRECTIVE ACTION MONITORING PLAN**

Not Applicable.

**DENTITY OF RECOMMENDATION 4**

The Office of Tax Administration Coordination should ensure that the tracking system for new legislative changes does not show provisions as complete until all required actions, including the completion of information systems changes, are completed and systems are functioning properly.

**ASSESSMENT OF CAUSE**

The IRS Legislative Implementation Tracking System (LITS) uses two action items to track a RIS. The first is RIS submission and the second is the response to the RIS. LITS does not track final programming completion.

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**CORRECTIVE ACTION**

LITS will include a third action item to track a RIS. The new item will address operational implementation of the requested programming change. The IRS implementation plan is using this item for the Economic Growth and Tax Relief Reconciliation Act of 2001, which the Office of Tax Administration Coordination is developing. We are also in the process of integrating LITS with the RIS Tracking and Reporting System. When completed, we will be able to review a RIS document with a link from LITS.

**IMPLEMENTATION DATE**

Completed.

**RESPONSIBLE OFFICIALS**

Director, Tax Administration Coordination  
Legislative Liaison, Information Systems

**CORRECTIVE ACTION MONITORING PLAN**

Not Applicable.

**IDENTITY OF RECOMMENDATION 5**

The Office of Servicewide Policy, Directives, and Electronic Research should reemphasize to Publishing Division personnel and IRM coordinators the importance of making sure requests for IRM changes contain Forms 2061 and are forwarded to the Chief Counsel Library for filing.

**ASSESSMENT OF CAUSE**

TIGTA reported they could not find 31 Forms 2061, Document Clearance Record in the Chief Counsel IRM Library.

We retain Document Clearance Records (Form 2061) in the Chief Counsel historical library. Over the years, the following sources provided guidance and procedures on this policy:

- (1) IRM 1230, Internal Management Documents Handbook 7/94 (last revision)  
(replaced by IRM 1.2.3)
- (2) IRM Steering Committee Meetings 1996-1999
- (3) IRM Authors Guide (Quick Reference Guide) 11/98
- (3) IRM 1.2.3 4/2000
- (4) Discussion 11/17/00 at IMD Coordinators Meeting (librarian specifically addressed Form 2061 issues)

IRM authors prepare Document clearance records for IRM clearances. However, some retained the document clearance records in their own offices instead of sending them to the library for filing.

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**CORRECTIVE ACTION**

As a result of the TIGTA findings, the Office of Servicewide Policy, Directives, and Electronic Research (SPDER) obtained a list of the "missing" document clearance records. We gave TIGTA the following findings in March 2001. Their research located all but 3 of the documents – either:

- (1) They were already in the library
- (2) SPDER got copies for the library
- (3) SPDER found out where they are housed, i.e., Chief Counsel keeps their own clearance records at a different location.

We revised IRM 1.2.3 and the IRM Authors Guide to further emphasize that a "complete" IRM package must contain: Form 2061 and attachments (comments from reviewers), Form 1767 (requisition), manual transmittal, and IRM file. Publishing Branch will return the Form 2061 with attachments to the historical library for filing. We continually stress to the IMD coordinators in each operating division and function the need to retain these document clearance records in the library, emphasizing the existing procedures in the IRM and IRM Author Guide. Publishing Services Branch will not accept for printing any incomplete IRM packages. SPDER will work with Publishing Services and the originating function to correct any omissions that occur prior to publication of an IRM.

To ensure the file is complete, i.e., that it includes a Form 2061, SPDER developed Form 2061-A, which is available on the Multimedia web site in PDF format. This form requires that the Internal Management Document (IMD) Coordinator for each Operating Division or functional area review the files to ensure they are complete before submitting them to Multimedia. The Form itself includes detailed instructions on how to prepare a file for publication. It includes the requirement that the Form 2061 be filled out properly and signed. If the IRM author does not submit the Form 2061-A with the file (which indicates the file is incomplete) Multimedia will return the file to the IMD coordinator. In addition, during our normal monthly meetings with the Operating and Functional Division IMD coordinators, we periodically stress the need to ensure that they forward the Form 2061 to the Chief Counsel Library for filing.

**IMPLEMENTATION DATE**

Completed.

**RESPONSIBLE OFFICIAL**

Office of Servicewide Policy, Directives, and Electronic Research

**CORRECTIVE ACTION MONITORING PLAN**

Not Applicable.

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### **IDENTITY OF RECOMMENDATION 6**

The Office of Servicewide Policy, Directives, and Electronic Research should centralize and control procedural guidance provided to all IRS business unit employees to ensure they have access to uniform, up-to-date procedures.

### **ASSESSMENT OF CAUSE**

The IRS has allowed the IRM to become inconsistent because of insufficient central management of the IRM process.

### **CORRECTIVE ACTION**

We established the Office of Servicewide Policy, Directives, and Electronic Research in December 1999 and it began operations in early 2000. SPDER, as the "owner" of the IRM process, uses customer liaisons to coordinate IRM issues with each business unit. They have also established a contact representative (IMD coordinator) from each business unit to be responsible for carrying out guidance relating to the IRM process. The primary responsibility of the SPDER Customer Liaisons is to establish procedures for ensuring the IRM is updated timely and to communicate our expectations to our IMD Coordinators. Monthly meetings are held with the IMD Coordinators to discuss new business and address their questions and concerns. In addition:

- (1) SPDER has prepared an authoring guide for all authors, which is a companion document to IRM 1.2.3, IMD System. This material sets forth all of the procedures and expectations for authoring and updating the IRM.
- (2) IRM On-line is available through SPDER's web site. This provides employees with a tool to conduct research of the IRM quickly and efficiently. The IRM On-line is researchable and is linked to the Internal Revenue Code and regulations, tax court cases, tax analysis, etc.
- (3) The SPDER Web Site also includes all issued memos and instructions.
- (4) SPDER established a procedure which requires that all interim guidance issued in the form of a memorandum include an expiration date of one year by which the time the interim guidance will be either be made obsolete or absorbed into the IRM.
- (5) SPDER continues to develop and improve products relating to the IRM to ensure our message is communicated to all of their customers, which include, the IMD Coordinators, IRM authors and all IRS employees. This includes the IRM Index (Document 10988), published quarterly. They are also updating a list of the IRM owners and asking them to identify the "intended audience." SPDER expects to incorporate this listing into the

**Compliance With Certain Taxpayer Rights Provisions  
Contained in the Internal Revenue Service Restructuring and  
Reform Act of 1998 Could Be Improved**

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index, which currently includes a list of all IRMs by IRM number, alphabetical by title, and former IRM number.

**IMPLEMENTATION DATE**

Completed.

**RESPONSIBLE OFFICIAL**

Office of Servicewide Policy, Directives, and Electronic Research

**CORRECTIVE ACTION MONITORING PLAN**

Not Applicable.

If you wish to discuss our response to your draft report, please call Stuart DeWitt, Office of Tax Administration Coordination, at (202) 622-3723.